

DOCUMENT RESUME

00599 - [A0751059] (Restricted)

[Methods the Bureau of Labor Statistics Uses to Arrive at Unemployment Percentages]. HRD-77-39; B-163992. January 26, 1977. 7 pp.

Report to Rep. Carl D. Perkins; by Gregory J. Ahart, Director, Human Resources Div.

Contact: Human Resources Div.

Budget Function: Education, Manpower, and Social Services: Other Labor Services (505).

Organization Concerned: Department of Labor; Bureau of the Census; Bureau of Labor Statistics.

Congressional Relevance: Rep. Carl D. Perkins.

Authority: Comprehensive Employment and Training Act of 1973 (29 U.S.C. 801). Emergency Jobs Programs Extension Act of 1976 (P.L. 94-444).

Actual and probable inaccuracies are contained in the data and mathematical relationships the Bureau of Labor Statistics uses to arrive at unemployment percentages. Findings/Conclusions: The Bureau of the Census makes a monthly survey of about 47,000 households throughout the country which provides statistically valid monthly and annual estimates of national unemployment. The survey data are statistically valid for estimating average annual unemployment for 27 large States and the 30 largest metropolitan areas. Inaccuracies in the data and mathematical relationships used to develop unemployment estimates involve: handbook estimates for State and local areas on a pro rata basis, State counts of unemployment insurance claimants, and estimates of the noncovered unemployed. Additional criticisms concern the definition of the unemployed. Current or proposed actions of the Department of Labor include expansion of the population survey and improvement of State unemployment insurance data. (RHS)

00599



RESTRICTED
Approved for Release by the Office of Congressional Relations, a record of which is kept by the Distribution Section, Publications Branch, OAS

U.S. GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations, a record of which is kept by the Distribution Section, Publications Branch, OAS

JAN 26 1977

B-163992

The Honorable Carl D. Perkins
House of Representatives

Dear Mr. Perkins:

Pursuant to your request and subsequent agreements with your office, we have studied the methods the Department of Labor's Bureau of Labor Statistics uses to arrive at unemployment percentages. We tried to determine whether alternative methods were feasible and might yield improved statistics. You expressed concern that unemployment in local areas is often undercounted and that this has an adverse effect on those areas because many Federal programs distribute funds based on local unemployment percentages.

We reviewed pertinent Bureau documents and several recent studies of its methods for developing unemployment estimates and rates. We also discussed the matter with officials responsible for administering the program and with the individuals in the academic community that your office suggested because of their knowledge of labor force measurement. Included were the Director, Center for Social Policy Studies, George Washington University, and the Director, Center for the Study of Human Resources, University of Texas.

This report discusses actual and probable inaccuracies in the data and mathematical relationships used in estimating unemployment, particularly for State subareas, and the Bureau actions, underway or planned, to improve the estimates. For example, not all statewide unemployment estimates have been developed in the same manner, but they will be beginning in March 1977, thus insuring consistency for all States.

Concern expressed by academicians and others regarding the unemployment estimates pertains primarily to the adequacy of the definition of the unemployed.

HRD-77-39

B-163992

The Emergency Jobs Programs Extension Act of 1976 (Public Law 94-444, Oct. 1, 1976) provides for establishing a National Commission on Employment and Unemployment Statistics to examine the procedures, concepts, and methods involved in employment and unemployment statistics and to suggest ways of improving them. A primary consideration will be the definition of unemployment.

BACKGROUND

The Bureau of Labor Statistics is responsible for developing and publishing the annual and monthly estimates of unemployment in the Nation as a whole, the States, and geographical subdivisions. The Bureau defines the unemployed as those seeking work, available for work, and having no earnings. The estimates are used for a variety of purposes including (1) as a basis for distributing billions of dollars of Federal assistance under such programs as employment and training assistance, public service employment, and area redevelopment, and (2) as a factor considered by the Congress and Federal policymakers in determining the Nation's fiscal and monetary policy.

For example, under title I of the Comprehensive Employment and Training Act of 1973 (29 U.S.C. 801), the Department of Labor provides funds to prime sponsors--usually State and local governments--for developing and creating job opportunities and for training, education, and other services needed to help individuals gain employment. The Department allocates a large part of the funds on the basis of the relative annual average unemployment in each prime sponsor's area.

Under title II of the act, the Department provides funds to prime sponsors for public service employment programs to provide transitional employment to the unemployed and underemployed in areas of substantial unemployment--areas experiencing an unemployment rate of 6.5 percent or more for 3 consecutive months.

METHOD FOR MEASURING UNEMPLOYMENT

The concepts of employment and unemployment measurement were developed in the late 1930s and were adopted for the national sample survey of households initiated by the Works Progress Administration in 1940. In 1943 responsibility for the household survey, now referred to as the Current Population Survey, was transferred to the Bureau of the Census, Department of Commerce. Responsibility for analyzing and publishing the labor force data was transferred to the

Bureau of Labor Statistics in 1959, although the Bureau of the Census continues to make the survey.

National unemployment estimates

The Bureau of the Census makes its monthly survey on a sample of about 47,000 households throughout the country. The households are scientifically selected each month for visits by interviewers to collect, among other data, data on employment and unemployment. The survey provides statistically valid monthly and annual estimates of national unemployment.

State and local estimates

The survey data is also statistically valid for estimating average annual unemployment for 27 large States, the 30 largest metropolitan areas, and the central cities of 11 of these areas. It is not sufficient to yield statistically valid estimates of annual averages for the remaining 23 States. Nor is the survey large enough for statistically valid monthly estimates for any State or local area.

The Bureau of Labor Statistics develops annual estimates for those 23 States for which the survey does not yield valid statistical data, and monthly estimates for all States, by applying a method, called the "handbook method," which relies on various data sources. These estimates are based primarily on State employment security agencies' counts of unemployed workers who claim unemployment insurance benefits and separate estimates for those not covered by such insurance based on relationships previously found to exist between the unemployment rates for covered workers and those for workers not covered.

For the 27 States, 30 metropolitan areas, and 11 central cities for which statistically valid annual average survey estimates of unemployment are available, the handbook annual estimates are adjusted to agree with the survey estimates. The ratios of the survey estimates to the handbook estimates are used to develop adjusted estimates for the last month of the year. During the following year, monthly estimates are developed by adjusting the estimate for the last month of the prior year in accordance with the month-to-month changes in the handbook estimates.

For the other 23 States, the total of the handbook annual estimates is compared to the total of the survey annual estimates. If the two estimates differ significantly, the

individual State handbook estimates are adjusted by the ratio of the survey total estimate to the handbook total estimate. During the next year, the monthly handbook estimates for each State are adjusted by the predetermined ratio to derive the official monthly unemployment estimates for each State.

Handbook estimates of unemployment for subareas within each State are also adjusted on a pro rata basis so that the sum of the estimates equals the official State estimate.

**ACTUAL AND PROBABLE
INACCURACIES IN METHODOLOGIES**

There are some inaccuracies in the data and mathematical relationships used in developing unemployment estimates, particularly for State subareas.

1. Adjustment of the handbook estimates for 23 States and most local areas on a pro rata basis to estimates from the survey probably results in inequities because it is unlikely that the handbook estimate for each State and local area is misstated by the same relative amount.
2. According to a recent Bureau of Labor Statistics study, significant inaccuracies exist in State counts of unemployment insurance claimants. Inaccuracies in estimates of unemployment rates for covered workers are compounded because the rates are the basis for determining unemployment for workers not covered.
3. The handbook estimates have been criticized by various sources, including a previous Secretary of Labor and the Director of the Center for the Study of Human Resources, University of Texas. For example, the relationships, or factors, applied to State counts of unemployment insurance claimants to arrive at estimates of the noncovered unemployed have been criticized because (a) the factors are national in scope and do not necessarily reflect local conditions, (b) some factors are based on relationships which existed several years ago and may not accurately represent current conditions, and (c) less than one-half of the unemployed have been covered by unemployment insurance in recent years. Similar criticisms were made in a GAO report to the Congress, "More Reliable Data Needed as a Basis for Providing Federal Assistance to Economically Distressed Areas" (B-133182, May 10, 1971).

**CRITICISMS OF THE
DEFINITION OF UNEMPLOYMENT**

The Bureau of Labor Statistics definition of the unemployed--seeking work, available for work, and no earnings--has been a major concern and criticism that academicians and others, including a previous Secretary of Labor and the Commissioner of the Bureau, recently have expressed regarding the unemployment estimates. Remarks have focused on the contention that the definition is no longer appropriate in light of the purposes for which the estimates are being used.

The major issues raised and recommendations made concerning the definition are:

- Certain groups not being considered as unemployed, such as workers with earnings below the poverty level, discouraged job seekers, and part-time workers wanting full-time employment, should be included.
- Certain groups now included in the estimates, such as students and those in households with income above certain levels, should be excluded.

**CURRENT AND PROPOSED ACTIONS
BY THE DEPARTMENT OF LABOR**

The Department is aware of the inadequacies and concern expressed regarding the unemployment estimates and has initiated or proposed actions designed to improve the estimates. These actions include:

1. Expansion of the Current Population Survey. The Department is financing an expansion of the survey to include about 60,000 households. The expansion will make it possible, beginning in March 1977, to derive statistically valid annual unemployment estimates for all 50 States and the District of Columbia, thus providing a consistent method for estimating the unemployed in each State.
2. Further expansion. The Department plans to have additional households included in the survey to yield annual control estimates of unemployment in subareas of the 18 largest States. The availability of statistically valid control estimates should improve the accuracy of subarea unemployment estimates in those States. Expansion of the survey sample to

produce statistically valid unemployment estimates for all subareas is considered to be impractical and would be extremely expensive.

3. Improvement of State unemployment insurance data. The Department plans to initiate a program to improve the quality of the data the States develop on unemployment insurance claimants. Funds will be made available to States for improving data collection systems and procedures.

The cost of expanding the sample to provide statistically valid monthly estimates for States and subareas would be prohibitive. However, the above actions should improve the estimates of annual unemployment for all States and provide an improved basis for monthly estimates.

NATIONAL COMMISSION ON EMPLOYMENT AND UNEMPLOYMENT STATISTICS

The Emergency Jobs Programs Extension Act of 1976 (Public Law 94-444, Oct. 1, 1976) provides for establishing a National Commission on Employment and Unemployment Statistics, consisting of nine members appointed by the President, by and with the advice and consent of the Senate. The Commission is to examine the procedures, concepts, and methods involved in employment and unemployment statistics and is to report on its findings and recommendations to the President and the Congress within 18 months after the first five members of the Commission are appointed.

Within 6 months after the report's submission, the Secretary of Labor is to make an interim report to the Congress on:

"(1) the desirability, feasibility, and cost of implementing each of the Commission's recommendations, and the actions taken or planned with respect to their implementation; and (2) recommendations with respect to any legislation proposed by the Commission, the need for any alternative or additional legislation to implement the Commission's recommendations, and any other proposals to strengthen and improve the measurement of employment and unemployment."

Within 2 years after submission of the Commission's report, the Secretary is to submit a final report to the Congress detailing the actions taken on the Commission's recommendations, together with any further recommendations deemed appropriate.

B-163992

CONCLUSIONS

While there are some actual and probable inaccuracies in the data and mathematical relationships used in developing unemployment estimates, particularly for State subareas, Bureau of Labor Statistics actions, underway or planned, should significantly improve the estimates. Furthermore, the concern which has been expressed by academicians and others pertaining to the adequacy of the definition of the unemployed will be a primary area to be considered by the National Commission on Employment and Unemployment Statistics.

- - - -

The subject matter of this report was discussed with officials of the Bureau of Labor Statistics, and their views were considered in preparing the report.

As agreed with your office, a copy of this report is being furnished to the Vice President of the United States and to Senator Walter D. Huddleston. We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours.


Gregory J. Ahart
Director